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RUEHCV/AMEMBASSY CARACAS 1351  
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TAGS: [ECON](#) [ECPS](#) [SP](#)  
SUBJECT: TELEFONICA GIVES PERSPECTIVE ON ITS LATIN AMERICAN  
ACTIVITIES

REF: A. 08 MEXICO 3513  
[1](#)B. 1/21 LAMELA-RICHARDSON EMAIL

MADRID 00000084 001.2 OF 002

[1](#)1. (SBU) Summary. Post met with Telefonica Latin America leads January 16 to discuss perspectives on Latin America and to raise ref A labor concerns on Telefonica subsidiary Atento Mexico. Eduardo Navarro, Director of Strategy and Regulation for Telefonica International, expressed a positive outlook for the thirteen Latin American countries in which Telefonica operates, with expectations for the highest level of growth in Brazil, Colombia, Mexico, and Peru. He said the greatest challenges to Telefonica operations were faced in Mexico, followed by Argentina. On the Atento labor issue, Navarro expressed concern and said that a Telefonica representative would follow-up with Embassy Mexico City on the allegations. Telefonica is the leading foreign investor in Latin America and has advised the GOS on Latin American policy along with other major Spanish investors in that region. End Summary.

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PROSPECTS IN LATIN AMERICA "GOOD"  
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[1](#)2. (SBU) On January 16, EconCouns and section members spoke with Telefonica's Latin America leads about perspectives and investment in Latin America. Present at the meeting were Eduardo Navarro, Director of Strategy and Regulation of Telefonica International; Daniel Arias, Deputy Director of Regulation and Wholesale; and Diego Molano, Director of Corporate Relations in Latin America. Navarro expressed optimism for Telefonica's growth in the region, but noted obstacles in Mexico and Argentina. Despite these obstacles, the Telefonica experts indicated that prospects in all thirteen countries in which Telefonica operates were promising, with the highest level of growth anticipated in Brazil, Colombia, and Mexico. He confirmed a future \$22 billion investment plan for the region, declining to give details other than saying that about \$5-6 billion was related to maintenance-type costs. On Cuba, the Telefonica officials said that the company was eyeing the country for future investment should there be change. He noted that current restrictions have resulted in a scant 1 percent mobile penetration.

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MEXICO AND ARGENTINA MOST CHALLENGING, VENEZUELA "FAIR"  
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¶3. (SBU) Navarro pointed to Mexico as the most challenging market for Telefonica given regulatory and institutional barriers and the economic and political strength of Carlos Slim's companies. Despite this, Navarro was pleased with Telefonica's current position as an established mobile alternative (Movistar), and characterized Telefonica's opportunities for expansion as promising. He said that company officials were optimistic about their efforts to change a law limiting the level of investment by foreign companies in fixed telecommunications lines. He opined that there was strong political will among elected officials to support the changes, although hampered at times by "outside pressures." He added that the upcoming Congressional elections would likely delay action on the draft bill, which had already been approved within an internal committee in the legislature.

¶4. (SBU) In a related topic, Econoff raised reftel labor concerns at Atento Mexico. Navarro expressed appreciation and concern for the information, and indicated that Telefonica representatives would follow up directly with Embassy Mexico City (Ref b).

¶5. (SBU) On Argentina, Navarro noted that Telefonica's greatest concerns were related to the GOA practice of fixed rate tariffs on fixed-line operations and rules that Telefonica believes provides competitor Claro with an unfair advantage on voice, TV, and cable services. When asked about Venezuela, Navarro said that the company was generally pleased with operations and GOV treatment there, noting that it had been treated "fairly" even during times of difficult relations between Spain and Venezuela. He mentioned that Telefonica had been compensated generously when Chavez had nationalized CANTV in 2007, in which Telefonica had a small

MADRID 00000084 002.2 OF 002

stake. Venezuela, Argentina, and Brazil pull in the highest level of profits in Latin American for Telefonica. (Comment: Navarro noted, however, that Telefonica could not easily repatriate its profits from Venezuela.)

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COMMENT  
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¶6. (SBU) Latin America is Telefonica's highest profit and growth region, representing 38 percent of total profits for the company in 2007. In turn, Telefonica's presence and investment is significant to the region itself, with profits reaching up to 2 percent of GDP in countries such as Peru and Chile. Given strong prospects, along with cultural and historical ties, it is no surprise that Telefonica hopes to expand its position in the region. In addition to its operations in Latin America, Telefonica has the dominant position in Spain, and a sizable operation in the rest of Europe. Telefonica has told us that it is also interested in China as a growing market, but apart from its small stake in China netcom, it is watching and waiting before it makes any major moves.

CHACON